

## **BOARD ACTION MEMORANDUM**

**TO:** NCUA Board

**DATE:** May 6, 2003

**FROM:** Office of General Counsel

**SUBJ:** IRPS 03-2 – Change in  
Definition of Small Credit Union

**ACTION REQUESTED:** Board approval of final rule, IRPS 03-2, that amends IRPS 87-2 to revise the NCUA definition of small credit union for purposes of the Regulatory Flexibility Act.

**DATE ACTION REQUESTED:** May 22, 2003.

**OTHER OFFICES CONSULTED:** Office of Examination and Insurance,  
All Regional Directors.

**VIEWS OF OTHER OFFICES CONSULTED:** Concur.

**BUDGET IMPACT, IF ANY:** None.

**SUBMITTED TO INSPECTOR GENERAL FOR REVIEW:** Yes.

**RESPONSIBLE STAFF MEMBERS:** Paul Peterson, Staff Attorney, Office of  
General Counsel.

**SUMMARY:** Staff recommends that the NCUA Board issue the attached final rule, IRPS 03-2, to amend the Regulatory Flexibility Act provisions of IRPS 87-2. The Regulatory Flexibility Act generally requires federal agencies to prepare analyses to describe the impact of proposed and final rules on small entities. Since 1981, the NCUA has defined small entity in this context to mean those credit unions with less than one million dollars in assets. The final rule redefines small entity to mean those credit unions with less than ten million dollars in assets. The final rule also provides for public notice of those regulations under pending review each year pursuant to NCUA's rolling, triennial review of all its regulations.

**RECOMMENDED ACTION:** Recommend the Board issue the final rule.

**ATTACHMENT:** Final rule.

**7535-01-U**

**NATIONAL CREDIT UNION ADMINISTRATION**

**12 CFR Part 791**

**Rules of NCUA Board Procedure; Promulgation of NCUA Rules and Regulations; Public Observance of NCUA Board Meetings**

**AGENCY:** National Credit Union Administration (NCUA)

**ACTION:** Final Rule.

**SUMMARY:** This final rule, Interpretive Ruling and Policy Statement (IRPS) 03-2, amends the Regulatory Flexibility Act provisions of NCUA's IRPS 87-2, Developing and Reviewing Government Regulations. The Regulatory Flexibility Act generally requires federal agencies to prepare analyses to describe the impact of proposed and final rules on small entities. Since 1981, the NCUA has defined small entity in this context to mean those credit unions with less than one million dollars in assets. This final rule redefines small entity to mean those credit unions with less than ten million dollars in assets. In addition, the rule amplifies a provision regarding NCUA's policy of reviewing all existing regulations every three years by stating that one-third of existing regulations will be reviewed each year and the public will receive notice of those regulations under review. The rule also updates IRPS 87-2 with a reference to the U.S. Small Business Administration guidance on implementation of the Regulatory Flexibility Act and to a Small Business Regulatory Enforcement Fairness Act requirement for publication of the factual basis supporting any certification that a particular rule will not have a significant economic impact on a substantial number of small entities.

**DATES:** This rule is effective [INSERT DATE 30 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER].

**FOR FURTHER INFORMATION CONTACT:** Paul M. Peterson, Staff Attorney, Office of General Counsel, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428 or telephone: (703) 518-6555.

**SUPPLEMENTARY INFORMATION:**

**A. Background**

In 1981, the NCUA defined small credit union for purposes of the Regulatory Flexibility Act (RFA), Pub. L. No. 96-354, as any credit union having less than

one million dollars in assets. NCUA IRPS 81-4, 46 FR 29248, June 1, 1981. IRPS 87-2 superseded IRPS 81-4 but continued the definition of small credit unions for purposes of the RFA as those with less than one million dollars in assets. 52 FR 35231, 35232, September 8, 1987. IRPS 87-2 is incorporated by reference into NCUA's current rule governing the promulgation of regulations. 12 CFR 791.8(a).

The Board believes that NCUA's current definition of small credit union as one with less than one million dollars in assets, adopted in 1981, is now outdated. On November 21, 2002, the Board issued a Notice of Proposed Rulemaking (NPRM) to amend the definition of small credit union in IRPS 87-2. 67 FR 72113, December 4, 2002. The Board proposed to change the qualifying asset size for a small credit union from less than one million dollars in assets to less than ten million dollars in assets. This final rule adopts the proposed rule's definition of small credit union.

As discussed in the NPRM, the RFA is intended in part to encourage federal agencies to give special attention when making rules to the inability of smaller entities to handle incremental compliance burdens created by new rules. Credit unions with ten or more million dollars in assets have staff that may devote some of their time to compliance issues and incremental compliance burdens, but credit unions with significantly less than ten million dollars in assets may be forced to seek and pay for outside assistance when addressing incremental compliance burdens. Accordingly, credit unions with more than ten million dollars in assets should be able to handle incremental compliance burdens more easily than credit unions with less than ten million dollars in assets.

A definition of small credit union as one with less than ten million dollars in assets is also consistent with recent statutes and NCUA regulations providing credit unions with regulatory compliance relief. For example, in 1998 Congress amended the Federal Credit Union Act to require that credit unions follow generally accepted accounting principles, but at the same time excused credit unions with less than ten million dollars in assets under a de minimus exception. 12 U.S.C. 1782(a)(6)(C)(i), (iii). Another 1998 amendment to the FCUA requires NCUA to provide "small credit unions," defined as those under ten million dollars in assets, with special assistance in meeting prompt corrective action requirements. 12 U.S.C. 1790d(f)(2). Finally, NCUA regulations provide that federally insured credit unions with less than ten million dollars in assets may file a short form call report in the spring and fall. 12 CFR 741.6(a).

The Board also notes that by increasing the threshold from one million dollars in assets to ten million dollars in assets the percentage of federally insured credit unions considered to be small will return to a percentage much closer to the percentage captured by the size standard first adopted in 1981.

The Board also proposed to add a provision in Section IV of IRPS 87-2 stating how NCUA carries out the policy of reviewing all existing regulations every three years and providing for notice to the public of that portion of the regulations that are under review each year. The final rule includes this provision.

This final rule includes a reference to The Regulatory Flexibility Act: An Implementation Guide for Federal Agencies (U.S. Small Business Administration, November, 2002) and requires NCUA staff to consult it when interpreting and implementing the requirements of the RFA. While a regulatory flexibility analysis is unnecessary if the Board certifies a regulation will not have a significant economic effect on a substantial number of small entities, the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA) requires that agencies publish a statement “providing the factual basis for” any such certification in the Federal Register. Pub. L. 104-121, 5 U.S.C. 605(b). IRPS 87-2 has provided that the certification will be published with a statement “explaining” the certification. This final rule replaces “explaining” with “providing the factual basis for.”

## **B. Summary of Comments**

NCUA received seventeen comment letters on the proposed rule: two from federal credit unions, five from state credit unions, eight from credit union trade organizations, one from a bank trade organization, and one from the National Association of State Credit Union Supervisors.

All of the commenters expressed support for changing the definition of small credit union to include more credit unions in the definition, with most of the commenters agreeing that small credit union should be redefined as a credit union with less than ten million dollars in assets. In addition, all the commenters who addressed the proposal to provide public notice of those regulations NCUA is reviewing each year as part of its three-year rolling review expressed approval for that notice.

### Comments on the asset size threshold for small credit unions

The eleven commenters who supported a ten million dollar threshold generally noted it was consistent with current statutory definitions of small credit union and with the effects of inflationary changes since 1981 and would result in a reasonable percentage of all credit unions (about 52%) being considered small. One commenter supported the ten million dollar threshold but stated it should not be greater than ten million.

Five commenters thought the asset threshold should be greater than ten million dollars. Of these commenters, two thought the threshold should be 20 million dollars, one thought it should be 25 million dollars, one thought it should be at least 50 million dollars, and another thought it should be 100 million dollars.

The commenters supporting thresholds of 20 and 25 million dollars note that the percentage of credit unions under one million dollars in assets in 1981, when the current definition of small credit union was established, was roughly 63% of all credit unions, and that the percentages of credit unions today under 20 million and 25 million dollars (66% and 70%, respectively) are close to 63%. One of these commenters also states that “credit unions with 20 million dollars in assets, although slightly larger than those with ten million dollars in assets, typically still do not have the resources to devote staff time solely to compliance issues.”

The commenter who supported a 50 million dollar threshold stated that: 1) only 10% of credit unions under 20 million dollars in assets have “paid compliance directors,” 2) only 16% of credit unions under 50 million dollars in assets have such directors, and 3) only 31% of credit unions between 50 million and 100 million dollars in assets have such directors. This commenter also noted that the federal banking regulators and the U.S. Small Business Administration generally set the RFA’s small entity threshold for their regulated financial entities at 150 million dollars in assets. The commenter who supported a 100 million dollar threshold also made similar comments.

The Board appreciates the comments of those who supported a more expansive definition of small credit union but notes that a majority of the commenters supported the proposed definition. Further, the proposed is consistent with other statutory uses of the term small credit union while more expansive definitions would not be. In addition, while credit unions with ten million dollars or more in assets may not have staff devoted exclusively to compliance issues, the Board concludes, as noted in the NPRM, they are likely to have some staff that can devote time to compliance. This analysis is appropriate in light of the legislative history of the RFA discussed in the NPRM. Accordingly, the Board has decided to adopt the definition of small credit union from the proposed rule.

#### Miscellaneous comments on the definition of small credit union and applicability of the RFA

A few commenters thought the asset threshold for small credit unions should be adjusted periodically: one suggested revisiting the threshold each year; two suggested tying it to inflation; and another suggested that NCUA should reset the threshold yearly by declaring as small that group of the smallest credit unions whose combined assets equal 10% of the aggregate assets of all credit unions. The Board believes that annual adjustment is unnecessary and might have undesirable consequences. For example, with inflation levels likely to remain low for the foreseeable future, the Board does not think the threshold needs to be revisited each year. In addition, the rulemaking process for particular rules often spans more than one calendar year, and it would be difficult and confusing to change the definition for rules in progress every year. Finally, the use of a fixed, round number makes it easier to assess which credit unions are small and to

explain how NCUA is applying the RFA analysis in a particular rulemaking. The Board will revisit the definition of small credit union as necessary in the future.

One commenter thought that, for rules in which the NCUA determines the RFA does not apply, the NCUA should publish details of its determination. As discussed above, this final rule amends IRPS 87-2 to reflect the SBREFA requirement that NCUA publish the factual basis for each certification in the Federal Register.

Two commenters thought the NCUA should go beyond the requirements of the RFA and should undertake and publish a detailed analysis of the economic impact of each rule on all credit unions, regardless of asset size. The Board does not believe an RFA-type analysis is needed for every rulemaking, but notes that it is NCUA's longstanding policy, as stated in IRPS 87-2, that it will impose only minimum required burdens on credit unions.

#### Miscellaneous comments about public notice of regulations under NCUA review

One commenter suggested that each year at its December meeting the Board announce which regulations would be reviewed by the NCUA Office of General Counsel in the coming year and which provisions in those regulations were specifically under consideration for change. The commenter thought this notice should be published both on the agency's website and in the Federal Register. Another commenter wanted the notice of regulations under review published twice a year and a designated contact point at NCUA for all questions and comments about a regulation under review.

The Board will publish notice of the regulations under rolling review in a particular year far enough in advance of the review to give interested parties a meaningful opportunity for input. The notice may be published on NCUA's website, in the Federal Register, or in other appropriate media as determined by NCUA. NCUA also publishes a semi-annual regulatory agenda in the Federal Register as part of the federal government's Unified Agenda of Federal Regulatory and Deregulatory Actions. That agenda, generally published each November and May, includes contact information and a description of rules that are in process or on which regulatory action is anticipated for the next 12 months.

One commenter thought that NCUA should add the following statement to IRPS 87-2: "Nothing in the Office of General Counsel's rolling review schedule prohibits the review of existing regulations ahead of schedule." While the Board believes that this is a true statement, the Board does not believe it need be added to IRPS 87-2.

#### Other miscellaneous comments

Two commenters thought the definition of small credit union in the Small Credit Union Program (SCUP) should be changed to correlate with the RFA definition. Another commenter stated the NCUA should also provide a definition of large credit unions. Since this rule applies only to NCUA rulemaking and the requirements of the RFA and does not affect the SCUP or large credit unions, these two issues are not addressed in the final rule.

## **REGULATORY PROCEDURES**

### Regulatory Flexibility Act

The RFA requires the NCUA to prepare an analysis to describe any significant economic effect any regulation may have on a substantial number of small credit unions, currently meaning those under one million dollars in assets. This final rule, when effective, will change the definition of small credit union to increase the number of credit unions receiving the procedural benefits of the RFA and will provide notice to the public and opportunity to comment on regulations under internal review. This final rule is procedural in nature and will not have any ascertainable economic impact on credit unions. Accordingly, the NCUA Board has determined and certifies that the final rule will not have a significant economic impact on a substantial number of small credit unions. No regulatory flexibility analysis is required.

### Executive Order 13132

Executive Order 13132 encourages independent regulatory agencies to consider the impact of their actions on state and local interests. In adherence to fundamental federalism principles, NCUA, an independent regulatory agency as defined in 44 U.S.C. 3502(5), voluntarily complies with the executive order. This final rule will not have substantial direct effects on the states, on the relationship between the national government and the states, or on the distribution of power and responsibilities among the various levels of government. NCUA has determined that this rule does not constitute a policy that has federalism implications for purposes of the executive order.

### Paperwork Reduction Act

NCUA has determined that the final rule does not increase paperwork requirements under the Paperwork Reduction Act of 1995 and regulations of the Office of Management and Budget.

### The Treasury and General Government Appropriations Act, 1999 - - Assessment of Federal Regulations and Policies on Families

The NCUA has determined that this final rule will not affect family well-being within the meaning of section 654 of the Treasury and General Government Appropriations Act, 1999, Pub. L. 105-277, 112 Stat. 2681 (1998).

### Small Business Regulatory Enforcement Fairness Act

The SBREFA provides for congressional review of agency rules. A reporting requirement is generally triggered in instances where NCUA issues a final rule as defined by Section 551 of the Administrative Procedure Act. 5 U.S.C. 551. Rules relating to management, personnel, or agency procedure or practice that do not substantially affect the rights or obligations of non-agency parties are exempt from congressional review. 5 U.S.C. 804(3). The NCUA Board has determined that this final rule, which deals with agency procedures and does not substantially affect the rights or obligations of non-agency parties, is exempt from congressional review.

### **List of Subjects in 12 C.F.R. Part 790**

Organization and functions (government agencies)

By the National Credit Union Administration Board on May 22, 2003.

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Becky Baker  
Secretary of the Board

### **Interpretative Ruling and Policy Statement 03-2, Developing and Reviewing Government Regulations**

For the reasons stated above, IRPS 03-2 amends IRPS 87-2 (52 FR 35231, September 18, 1987) by revising the second sentence in Section II, paragraph 2.; adding a sentence to the end of Section II, paragraph 2; revising the fourth sentence in Section II, paragraph 4; and adding a sentence to the end of Section IV to read as follows:

#### **II. Procedures for the Development of Regulations**

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2. \* \* \* Credit unions having less than ten million dollars in assets will be considered to be small entities. \* \* \* In addition, NCUA staff will consult applicable U.S. Small Business Administration guidance, including The Regulatory Flexibility Act: An Implementation Guide for Federal Agencies, when interpreting and implementing the requirements of the Regulatory Flexibility Act.

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4. \* \* \* The certification will be published in the Federal Register with the final rule, along with a statement providing the factual basis for such certification. \* \* \*



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IV. Review of Existing Regulations. \* \* \* To accomplish a review every three years of all regulations, the Office of General Counsel will maintain a rolling review schedule that identifies one-third of existing regulations for review each year and will provide notice to the public of that portion of the regulations under review each year so the public may have an opportunity to comment.

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### **Conforming Amendment to NCUA Regulations, 12 C.F.R. Part 791.**

For the reasons stated above, amend 12 C.F.R. Part 791 as follows:

#### **PART 791 – RULES OF NCUA BOARD PROCEDURE; PROMULGATION OF NCUA RULES AND REGULATIONS; PUBLIC OBSERVATION OF NCUA BOARD MEETINGS**

1. The authority for Part 791 continues to read as follows:

Authority: 12 U.S.C. 1766, 1789 and 5 U.S.C. 552b.

2. Amend §791.8 by revising paragraph (a) to read as follows:

§791.8 Promulgation of NCUA Rules and Regulations.

(a) NCUA's procedures for developing regulations are governed by the Administrative Procedure Act (5 U.S.C. 551 et seq.), the Regulatory Flexibility Act (5 U.S.C. 601 et seq.), and NCUA's policies for the promulgation of rules and regulations as set forth in its Interpretive Ruling and Policy Statement 87-2 as amended by Interpretive Ruling and Policy Statement 03-2.

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